

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

A335
R88Rg

UNITED STATES
DEPARTMENT OF AGRICULTURE
LIBRARY



BOOK NUMBER

A335
R88Rg

U. S. DEPARTMENT OF AGRICULTURE
Rural Electrification Administration
Washington, D. C.

REPORT OF THE RURAL ELECTRIFICATION ADMINISTRATION
RELATING TO THE DESIGNATED GREAT PLAINS AREA

The Rural Electrification Administration has a vital interest in the stability and financial status of agriculture from the standpoint of the security of its loans. The Agency is deeply concerned about the drought and attendant reverses in the agricultural economy of the area under consideration.

REA has 81 electric borrowers and 27 telephone borrowers whose service areas lie entirely within, or substantial portions lie within, the Great Plains area under consideration. The 81 electric borrowers have been loaned a total of approximately \$245 million. They are providing electric service to over 161,000 farms and 70,000 other rural consumers. Twenty-seven telephone borrowers have received loans totaling approximately \$19 million to provide telephone service to about 34,000 subscribers.

Both the electric and the telephone loans are for a period of 35 years. There is an initial five-year deferment of principal and interest payments on electric loans and a three year deferment on payments on telephone loans. Funds are advanced to borrowers as needed for approved loan purposes. The 81 electric borrowers had, as of January 1, 1955, drawn about \$217 million, leaving about \$28 million in unadvanced funds. Sixteen of the 27 telephone borrowers had drawn on their REA loans at January 1, 1955; loan funds advanced to them amounted to about \$10 million.

Payments of principal and interest become due on only the funds advanced. As of January 1, 1955, the electric borrowers had repaid about \$27 million of principal, leaving a principal balance outstanding of about \$190 million. As of the same date the telephone borrowers had repaid \$65,000 of principal and had a principal balance outstanding of almost \$10 million. The above figures show that most of the money loaned by REA to borrowers in this area is still outstanding. Collection of this principal along with the interest is the direct responsibility of REA. Each of the loans was made on the basis of a finding, to which the Administrator of REA certified that, in his judgment, the borrowers revenues would be sufficient to meet operating expenses and to repay the principal with interest over a 35-year period. The margins of feasibility are quite narrow on both electric and telephone loans in this area primarily because (a) the sparse settlement and resulting low density of customers per mile of line, and (b) most of the borrowers carried out their major construction programs after World War II, consequently their plants were built at high cost levels.

Only one electric borrower in this area was delinquent by more than 30 days in its payments to REA on December 31, 1954. However, most of the borrowers are still in the payment deferment period on a substantial amount

of their loans. During calendar year 1954, the operating reports of the 81 electric borrowers indicate that 34 of them had current earnings which were inadequate to meet all operating expenses and their annual debt payments had these been due. After making allowance for the age of the borrowers, there remained 20 whose earning records fell short of performance which would assure their ability to meet their payments to REA on time. These 20 borrowers have loans totaling about \$59 million and advances totaling \$56 million. They have repaid about \$5 million, leaving a balance outstanding of \$51 million. REA is working with these borrowers, assisting them in developing and carrying out management plans aimed at eliminating their financial difficulties. In most instances the solution must be found in increased use of electricity by farm consumers. This is extremely difficult to achieve under adverse conditions such as the present drought imposes on the area.

The average kwh consumption per consumer has not yet attained the level which was assumed in the feasibility studies made in support of the REA loans. The financial success of electric borrowers is dependent upon the continued increase in the use of electricity by their consumers. It is unlikely that the use of electricity on farms will fall below the levels which have been attained, unless the drought extends several additional years. In such event, the effect would be felt by the REA electric borrowers in reduced energy sales brought about by declining average usage per consumer and a decline in the number of consumers. The lower farm incomes resulting from drought tend to slow the purchase of new electric equipment as well as to slow the application of electricity to new uses on the farm. This may increase the period of time required for REA borrowers to achieve kwh sales which will enable them to meet their debt payments on schedule. It is conceivable that a prolonged drought could so alter the economic circumstances of an area that an REA borrower would be permanently unable to meet its debt obligations.

The telephone borrowers in this area have critically narrow margins in their operations. In contrast to electric service, telephone service tends to be discontinued quickly when income declines substantially. This tendency has immediate and drastic effects on the revenues of the REA telephone borrowers. Of the 16 telephone borrowers in the area which have drawn on their REA loans, 7 were delinquent a total of \$34,000 interest and principal at December 31, 1954. It should also be pointed out that most of the telephone loans in this area are still in the payment deferment period.

Some measure of temporary relief for distressed borrowers is provided by Section 12 of the Rural Electrification Act, which empowers the Administrator to extend the time of payment of interest or principal of any loans for not more than 5 years after such payments become due. REA will extend the time of payment of interest or principal by a borrower unable, through circumstances beyond the borrower's control, to achieve the revenues contemplated at the time the loan was made, on the basis of a finding that such extension is necessary in order to enable the borrower to operate

in an efficient manner, render adequate service, and meet its total obligations to the government. In the case of telephone borrowers, the margins of feasibility are normally so small that an extension of the time of payment of principal or interest could necessitate an increase in the rates charged subscribers. This result would, of course, be undesirable. The fact remains that the indebtedness of REA borrowers, under the provision of the Rural Electrification Act, must be paid. The ultimate fulfillment of this requirement depends on stable, prosperous agriculture in the areas which REA borrowers serve.

There appear to be two principal means by which the credit facilities of REA can be a constructive contribution to the Department's programs for this area:

1. Loans by REA under Section 4 of the Rural Electrification Act for the purpose of heavying up borrowers' systems to serve larger rural loads, including irrigation loads.
2. Loans by REA to the electric borrowers in the area to be reloaned to their consumers at 4 percent interest for the purchase of electric appliances and equipment. The authority for these loans is contained in Section 5 of the Rural Electrification Act. These consumers' facilities loans can be of material assistance to farmers making a conversion from grain to livestock farming by supplying credit to buy and install stock water systems and livestock feed and forage processing equipment. These additional farm power needs which will develop in a shift to livestock can best be met by electric power in most instances. These loans can also be used for financing electric irrigation pumping equipment, but not for well drilling and related irrigation facilities.

REA loans under both Section 4 and Section 5 of the Act are discretionary and approval of them could be withheld where the loan funds would be used in contravention of the land utilization plans adopted in the area. In the case of Section 4 loans for electric plant facilities to serve irrigation loads, REA could determine whether the proposed irrigation is consistent with the land utilization plan for the area and could require that the borrowers obtain commitments on the part of farmers to be served by the facilities as to the use to be made of pump irrigation water. REA could make it incumbent on the borrowers, as a condition of a Section 5 loan which would be used to finance electric pump irrigation equipment, to obtain agreement of farmer applicants to comply in the use of water with the land utilization plan developed and adopted at the local level.

At the present time, REA has a policy of making a thorough analysis of all factors affecting continued sound pump irrigation in any area for which the agency has a loan application for financing electric plant to serve irrigation facilities. REA participates in joint programs with the Soil Conservation Service, the Extension Service and others interested in encouraging

efficient and effective irrigation practices.

In considering loans to rural electric and rural telephone systems, REA will continue to give careful consideration to present and prospective developments which will retire land from cultivation or agricultural use, or which will change the density or location of settlement. REA does not make loans to serve areas which it is known will be inundated by the construction of dams, or which will be acquired as a part of federal forests. REA has also refrained from financing facilities to serve areas which are physically unsuited to cultivated crops and which are being retired from intensive agricultural use through public efforts. In the event that the long-range agricultural program for the Great Plains should include rural zoning plans, REA will give thorough attention to such plans and their effect on loan feasibility in considering applications for additional loans from rural electric and rural telephone systems in that area.

The REA borrowers and their state associations can be of considerable assistance in implementing the land utilization plans adopted. The electric cooperatives are serving more than 90 percent of the farms in the area. Their organizations reach the grass roots in virtually every community and could be used effectively in conjunction with the efforts of other local organizations and agencies. The cooperatives' newspapers reach all consumers, and these could be utilized. REA works with the borrowers to develop overall management plans and in the process could stimulate borrowers to use the long-range land utilization plans as a basis for developing their own programs. The electric sales program which is being sponsored by the Inter-Industry Farm Electric Utilization Council and in which virtually all of the electric cooperatives are participating can be of particular assistance to farmers who are shifting to livestock farming, in their adaptation of electricity to their additional farm power needs.



